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June 10, 2011

Ex Parte via Electronic Filing

Ms. Marlene H. Dortch
Secretary
445 12th Street, SW
Federal Communications Commission
Washington, DC 20554

Re: *Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135, *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing* a *Unified Intercarrier Compensation Regime*, CC Docket 01-92; *Federal-State Joint Board for Universal Service*, CC Docket No. 96-45; *Lifeline and Link-Up*, WC Docket No. 03-109.

Dear Ms. Dortch:

On Thursday, June 9, and Friday June 10, 2011, David Armistead, General Counsel, Hargray Telephone Company, Trey Judy, Director of Regulatory & Carrier Relations, Hargray Telephone Company, and the undersigned of Covington & Burling LLP, met separately with Zachary Katz, Legal Advisor for Wireline, International, and Internet Issues to Chairman Genachowski, Christine Kurth, Policy Director & Wireline Counsel to Commissioner McDowell, Margaret McCarthy, Wireline Policy Advisor to Commissioner Copps, Angela Kronenberg, Wireline Legal Advisor to Commissioner Clyburn, and Amy Bender and Patrick Halley of the Wireline Competition Bureau, to discuss the above-captioned proceedings.

The discussions focused on an alternative solution for the high-cost Universal Service Fund program that would achieve the Commission's goals in this proceeding: it would allow consumer choice and market forces, rather than carrier expenditures, to direct USF support; it would refocus the program on 21st century telecommunications services and incent carriers to deploy and offer affordable broadband; and it would arrest the growth of the program.

The parties discussed the mechanics of the alternative solution, which would freeze 2011 high-cost USF revenue requirements for participants on a per access line and per broadband line basis. In future years, participants would receive support for voice lines frozen on a per line basis at 2011 levels. Support for broadband access lines also would be frozen on a per broadband line basis, with support based on a modest weighting factor for additional, higher speed bandwidth lines. Due to declining trends in voice access lines, only those carriers that are aggressively building out infrastructure and delivering affordable broadband to their residents and businesses will be able to sustain levels of support at or near their current levels.

The proposal not only controls the growth of the program and reorients the USF program to support affordable 21st century telecommunications—where consumers want them and priced to spur adoption—but it eases significantly the administrative burden associated with the program for fund administrators and recipients. Significant complexity and costs would be eliminated immediately.

The participants in the meeting reviewed the attached during these discussions. Please do not hesitate to let us know if you have any questions.

Respectfully submitted,

/s/ Gerald Waldron

Gerard Waldron
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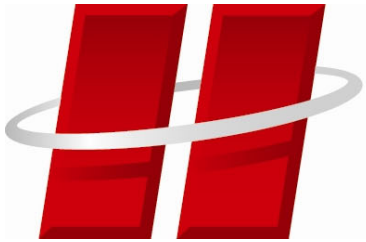
Counsel to Hargray Telephone Company

Attachment

cc: Zachary Katz
Christine Kurth
Margaret McCarthy
Angela Kronenberg
Amy Bender
Patrick Halley



HARGRAY

June 9, 2011

Broadband Incentive Plan

Ex Parte Presentation

Agenda

- **Introductions and overview of Hargray Telephone Company**
- **Highlights of Broadband Incentive Plan**
- **Objectives of Broadband Incentive Plan**
- **Mechanics of Broadband Incentive Plan**

Introductions and Hargray Overview

- **David Armistead**
  - **General Counsel, Hargray Telephone Company**
- **Trey Judy**
  - **Director of Regulatory & Carrier Relations, Hargray Telephone Company**
- **Gerry Waldron**
  - **Covington & Burling LLP**
- **Libbie Canter**
  - **Covington & Burling LLP**

Highlights of Broadband Incentive Plan

- **Implementation date of January 1, 2012**
- **Consolidates all high cost support mechanisms into one fund**
- **Freezes support levels for each recipient on a per access line/per broadband line basis, using 2011 USF revenue and end-of-year line counts**
- **Imposes carrier of last resort status for broadband on recipients**
- **Weighting factor for higher speed broadband services**
- **Simplified administration, reporting and auditing due to elimination of expense-based support**
- **Can serve as longer term solution or bridge to more comprehensive Connect America Fund plan**

Objectives of the Broadband Incentive Plan

- **Hargray's objective in crafting the Broadband Incentive Plan was to develop a bridge proposal that leveraged the structure of, and participants in, the existing fund to satisfy the FCC's stated objectives while a more comprehensive, long-term solution was developed**

- **Through adoption of the BIP, the FCC would accomplish the following objectives:**

  - **Promote broadband investment, economic stimulus, and job growth**

  - **Allow consumer choice to direct what services the fund supports**

  - **Manage the size of and burdens associated with the fund**

Broadband investment and economic stimulus

- **The BIP will promote broadband investment, economic stimulus and job growth by**
  - **Enabling investment in broadband infrastructure and deployment of affordable broadband services that will help stimulate the economy and sustain jobs**
    - **Support will be allocated for broadband lines that are added by fund recipients**
    - **Tying support to broadband lines actually provided to consumers encourages companies to build broadband networks where customers want them (*and to price services to spur adoption*)**
  - **Establishing carrier of last resort obligations for broadband to ensure widespread availability of those services**
    - **Recipients will be required to assume COLR obligations for basic broadband service as a condition of funding**
  - **Preserving the most successful aspects of the USF system, which carriers have relied on to invest in the communications infrastructure needed to provide broadband, generate jobs and spur economic development in communities under increasing economic pressure**
    - **The BIP leverages expertise of existing recipients and preserves economic growth and community development spurred by those recipients**

Consumer directed support

- **The BIP will allow consumer choice to direct what services the fund supports by:**
  - **Shifting support from voice to broadband services as consumer demand shifts;**
    - **The BIP allows market forces to manage the shifting of support from voice to broadband services on an area specific basis**
    - **When voice communication becomes just another service provided over a broadband pipe, support will have fully shifted from voice to broadband**
  - **Ensuring that consumers who need and rely on voice services continue to have access to those services at affordable rates.**
    - **Reductions in support for telephone service will be measured, and rates will not be impacted**

Management of size and burdens of fund

- **The BIP will also enable the FCC to manage the size of and burdens associated with the fund by**
  - **Reducing funds supporting voice-only services consistent with loss of access lines**
    - **Support for voice services frozen at 2011 levels on a per line basis**
  - **Eliminating tie between support and amount of money spent by support recipient**
    - **Expenses no longer part of support calculation**
  - **Immediately eliminating significant complexity associated with management and administration of fund, thus reducing the burdens on FCC, NECA, USAC and recipients**
    - **Complicated studies and quarterly cost based filings will be replaced by line count reports**
    - **Implementation of BIP facilitated by use of existing reports (1.3 loop count and FCC Form 477)**
    - **Expensive and onerous cost and operational audits replaced by simple line count verifications**
- **The BIP provides the FCC with a bridge plan that accomplishes its objectives in the near-term while providing additional time to craft a permanent solution that accounts for the multiple complexities associated with the reform effort**

Mechanics of the Broadband Incentive Plan

- **USF revenue requirements would be frozen on a per line basis for voice and broadband lines.**
  - **Specifically, Interstate Common Line Settlement (ICLS) and High Cost Loop Support (HCLS) revenue requirements would be based on finalized cost studies completed by July 31, 2011, and Local Switching Support (LSS) and Safety Net Additive (SNA) revenue requirements would be frozen based on 2011 calender year support from USAC.**
  - **Carriers would calculate frozen 2011 support by reference to same weighting mechanism that will be used to calculate future support.**
    - **Voice Line = 1 Line**
    - **≥ 768Kbps <1.5Mbps = 1 Line**
    - **≥ 1.5Mbps <3Mbps = 1.2 Lines**
    - **≥ 3Mbps <6Mbps = 1.4 Lines**
    - **≥ 6Mbps <10Mbps = 1.6 Lines**
    - **≥ 10Mbps <25Mbps = 1.8 Lines**
    - **≥ 25Mbps = 2 Lines**
- **In future years, recipients will receive support for voice lines frozen at 2011 per line levels.**
- **Support for broadband access lines also will be frozen on a per broadband line basis, but higher speed bandwidth lines will receive greater per line support, calculated by reference to the above schedule.**

Mechanics of the Broadband Incentive Plan – Example

- **If recipient received $50,000 in 2011 (ICLS, HCLS, LSS, and SNA) to support 3,800 voice lines and 1,000 1.5 Mbps lines, support would be frozen at $10 per voice line (and $12 per 1.5 Mbps line).**

- **$50,000/((3,800 x 1) + (1,000 x 1.2)) = $10 per voice line**
  - **1.2 x ($10) = $12 per 1.5Mbps line.**

- **In 2012, if the same recipient has 3,400 voice lines, 900 1.5 Mbps lines, and 100 3 Mbps lines, total support will decrease to $46,200. This example shows typical line loss, but only shifting existing broadband customers up one tier, no new deployment.**
  - **(1 x $10) x 3,400 = $ 34,000**
  - **(1.2 x $10) x 900 = $ 10,800**
  - **(1.4 x $10) x 100 = $ 1,400**
  - **Total = $ 46,200**

- **Alternatively, if same recipient in 2012 has 3,400 voice lines, but 1100 1.5 Mbps lines and 150 3 Mbps lines, total support will experience a more modest decrease to $49,300. This example shows similar line loss, but differs in that it shows growth in both broadband tiers equal to the access line loss in absolute terms.**
  - **(1 x $10) x 3,400 = $34,000**
  - **(1.2 x $10) x 1100= $ 13,200**
  - **(1.4 x $10) x 150 = $ 2,100**
  - **Total = $ 49,300**